



**DIAMOND HILL**<sup>®</sup>  
funds

**June 30, 2010**

SMALL CAP FUND

SMALL-MID CAP FUND

LARGE CAP FUND

SELECT FUND

LONG-SHORT FUND

FINANCIAL LONG-SHORT FUND

STRATEGIC INCOME FUND

Not FDIC Insured | May Lose Value | No Bank Guarantee

Invest WithUs.<sup>®</sup>

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# Quarterly Guide

June 30, 2010

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# Our firm's found

## Mission

The mission of Diamond Hill is to **serve** our clients through a **disciplined intrinsic value-based approach** to investing, while maintaining a **long-term perspective**, and **aligning our interests** with those of our clients.

To successfully pursue our mission, we are:

- ◆ **COMMITTED** to the Graham-Buffett investment philosophy, with goals (over 5-year rolling periods) to outperform benchmarks and our peers, and achieve absolute returns sufficient for risk of asset class.
- ◆ **DRIVEN** by our conviction to create lasting value for clients and shareholders.
- ◆ **MOTIVATED** through ownership of Diamond Hill funds and company stock.

## Investment Philosophy

At Diamond Hill, the investment philosophy, which is rooted in the teachings of Benjamin Graham and the methods of Warren Buffett, drives the investment process—not the opposite.

Most simply, we invest in a company when its market price is at a discount to our appraisal of the intrinsic value of the business (or at a premium for short positions).

There are four guiding principles to our investment philosophy:

- ◆ **Treat every investment as a partial ownership interest in that company.**
- ◆ **Always invest with a margin of safety to ensure the protection of capital, as well as return on capital.**
- ◆ **Possess a long-term investment temperament.**
- ◆ **Recognize that market price and intrinsic value tend to converge over a reasonable period of time.**

## Quarterly Guide

June 30, 2010

### Portfolio Management



Chuck Bath, CFA



Chris Bingaman, CFA



Bill Dierker, CFA



Ric Dillon, CFA



Tom Schindler, CFA



Chris Welch, CFA



Bill Zox, CFA



Kapish Bhutani, CFA



Jason Downey, CFA



# valuation

*“Investment is most intelligent when it is most businesslike.”*

— BENJAMIN GRAHAM

## Pledge

**Consistent with our mission & investment philosophy, we pledge the following to all our clients:**

Our investment discipline is to assess the economics of the underlying business, its management, and the price that must be paid to own a piece of it. We seek to concentrate our investments in businesses that are available at prices below **intrinsic value** (at a premium for short positions) and are managed or controlled by trustworthy and capable people. Benjamin Graham pioneered this discipline during the 1930s and many others have practiced it with great success ever since, most notably Warren Buffett.

We will communicate with our clients about our investment performance in a manner that will allow them to properly assess whether we are deserving of their **trust**.

Our **investment team** will be comprised of people with integrity, sound experience and education, in combination with a strong work ethic and independence of thought. Especially important is that each possesses the highest level of character, business ethics and professionalism.

Our employees will enjoy a **working environment** that supports professional and personal growth, thereby enhancing employee satisfaction, the productivity of the firm and the experience of our clients.

*“Invest **With Us**”* means we will invest the capital you entrust to us with the same care that we invest our own capital. To this end, Diamond Hill employees and affiliates are **significant investors** in the same portfolios in which our clients invest and are collectively the largest shareholders in the Diamond Hill Funds. In addition, all Diamond Hill employees are subject to a Code of Ethics, which states that all personal investments must be made in a Diamond Hill fund, unless approved by our Chief Compliance Officer.

**DIAMOND HILL**<sup>®</sup>  
investments

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### Assistant Portfolio Management & Research



# Our fundamental equity principles

## Valuation

- ◆ Every share of stock has an intrinsic value that is independent of its current stock market price.
- ◆ At any point in time, the stock market price may be either sufficiently higher or lower than intrinsic value.
- ◆ Over short periods of time, as evidenced by extreme stock market volatility, the stock market price is heavily influenced by the emotions of market participants, which are far more difficult to predict than intrinsic value. While stock market prices may experience extreme fluctuations on a particular day, we believe intrinsic value is far less volatile.
- ◆ Over sufficiently long periods of time, five years and longer, the stock market price tends to converge with intrinsic value.

## Calculating Intrinsic Value Estimate

- ◆ We believe that we can determine a reasonable approximation of that intrinsic value in some cases.
- ◆ That value can be determined if we have a reasonable basis for projecting the future cash flows of a business and use an appropriate discount rate.

- ◆ In estimating intrinsic value, we use an interdisciplinary approach. Not only do we perform financial modeling including discounted cash flow, private market value and leveraged buyout analyses, we draw from other areas we believe are relevant to our investment decision-making. These include economics, statistics and probability theory, politics, psychology and consumer behavior.
- ◆ In short, we do not want to exclude from our thinking anything that can help us forecast future cash flows, our most important as well as most difficult job.
- ◆ The Diamond Hill investment process continually compares market price to our estimate of intrinsic value, which is updated over time as new information arises.

## Suitable Investments

- ◆ We only invest in a business when the stock market price is lower than our conservative assessment of per share intrinsic value (or at a premium for short positions).
- ◆ We concentrate our investments in businesses whose per share intrinsic value is likely to grow. To achieve this, we assess the underlying economics of the businesses in which we invest and the industries and markets in which they participate. We seek to invest in businesses that possess a competitive advan-

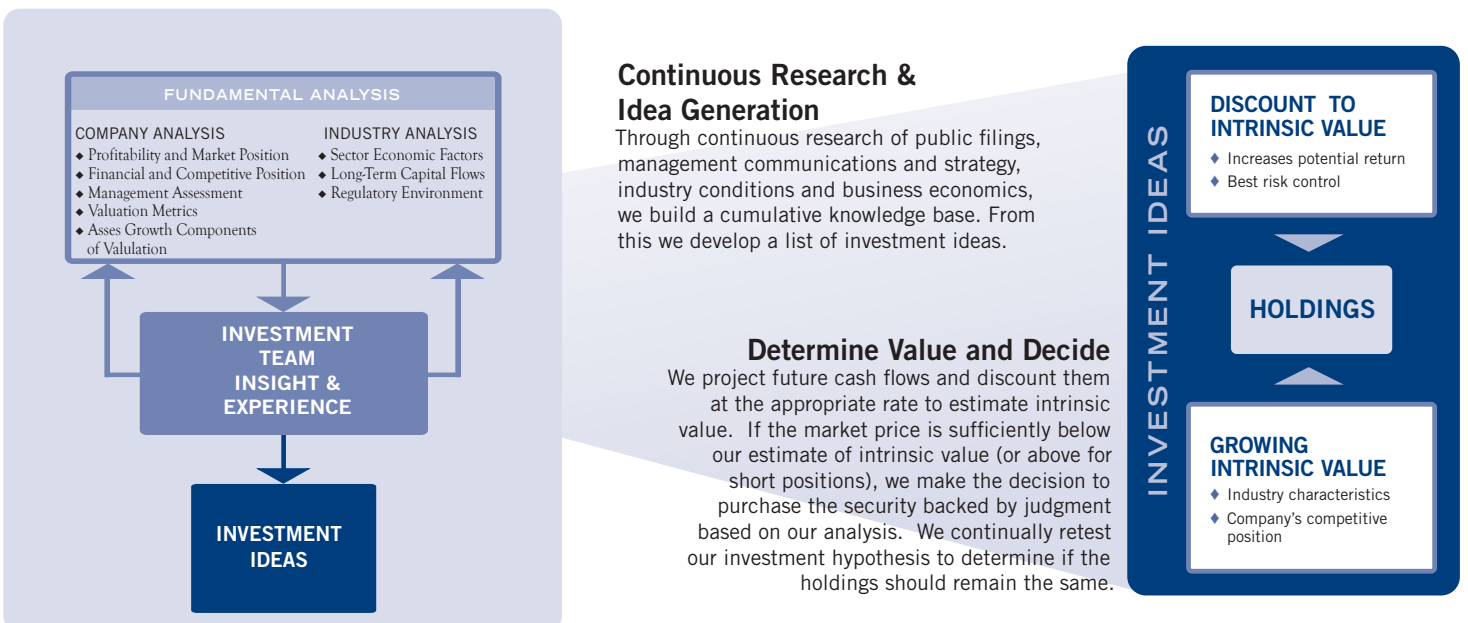
tage and significant growth prospects as well as outstanding managers and employees.

- ◆ Every business in which we invest is “handicapped” by its price. While we would prefer to own only great businesses with superior managers, there are very few businesses that satisfy those criteria and additionally are available at attractive prices. As a result, we may invest in less attractive businesses at more than attractive prices. Depending on the price we pay, our returns from less than ideal businesses may be even better than our returns from ideal businesses.

## Risk & Return

- ◆ We intend to achieve our return from both the closing of the gap between our purchase price and intrinsic value and the growth in per share intrinsic value. For short positions, a growing intrinsic value may shorten the holding period.
- ◆ We do not define risk by price volatility. We define risk as the possibility that we are unable to obtain the return of the capital that we invest, as well as a reasonable return on that capital when you need the capital for other purposes. If your time horizon is less than five years, then you should not invest that capital in the stock market.

# Our equity investment process





*“You simply have to behave according to what is rational rather than according to what is fashionable.”*

—WARREN BUFFETT

## Our fundamental strategic income principles

### Yield

- ◆ Our primary goal is to generate a yield greater than the current rate of inflation without bearing undue credit or interest rate risk. However, we cannot guarantee any specific yield.

### Approach

- ◆ A flexible approach allows us to invest in both investment grade and non-investment grade corporate bonds as well as in preferred securities, real estate investment trusts, master limited partnerships and closed end funds.
- ◆ We can also invest in securities issued by the U.S. government and its agencies when conditions warrant.

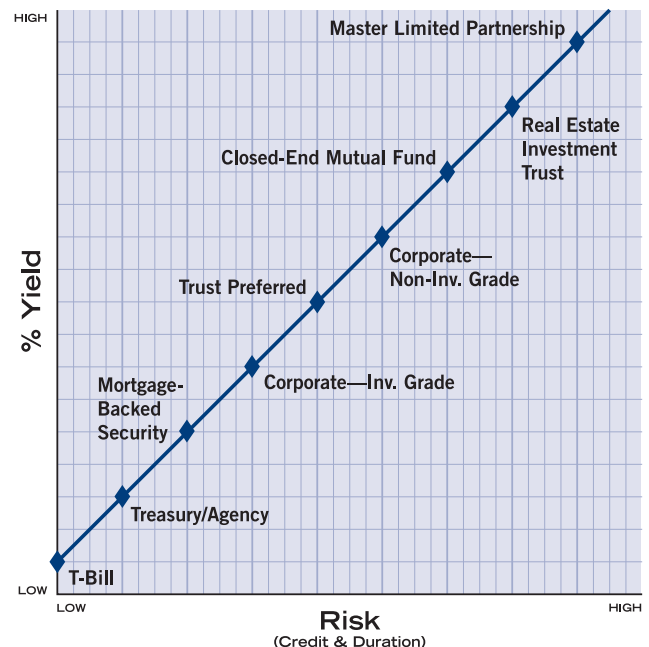
### Total Return

- ◆ We balance our income objective with a focus on total return. Over the next five years, our objective is to earn equity-like returns in the income markets with lower year-to-year volatility and more importantly, a much lower risk of permanent loss of capital.

## Our strategic income investment process

- ◆ Perform a sector analysis to determine the relative attractiveness of each sector.
- ◆ Based on this analysis, a fundamental, bottom-up analysis is performed to identify individual securities for the portfolio.
- ◆ Most importantly, the portfolio is not benchmark sensitive.

At right is a graphical representation of relative risk vs. potential yield for various income-producing investment alternatives.



# Small Cap Fund

## Investment Objective

- ◆ Long-term capital growth by investing in companies selling for less than our appraisal of intrinsic value.
- ◆ Suitable for investors with a 5+ year investment horizon.

## Portfolio Management



Tom Schindler, CFA  
Manager



Chris Welch, CFA  
Assistant Manager



Chris Bingaman, CFA  
Assistant Manager

## Investment Strategy

**BUY STRATEGY** The Fund seeks to buy securities of companies at prices below our appraisal of intrinsic value. To determine intrinsic value, the business must be understandable and the cash flows must be reasonably estimable. In addition, we seek businesses with a lasting competitive advantage and management with an owner mentality such that shareholders will reap the rewards of the underlying business performance.

**SELL STRATEGY** Investments are sold when the stock price approximates our appraised intrinsic value. Ideally, this occurs as the stock price has risen and closed the gap with a growing intrinsic value. In a less than ideal situation, our estimate of intrinsic value may be revised such that the market

price is no longer at a discount to intrinsic value. In cases where we no longer have confidence we can predict with any reasonable accuracy the business cash flows, the mistake is admitted and the investment is sold. Finally, we may sell one investment in order to raise proceeds for investment in a more attractive alternative.

**FUND STRUCTURE** Typically 40-70 positions. Maximum sector exposure is 30%.

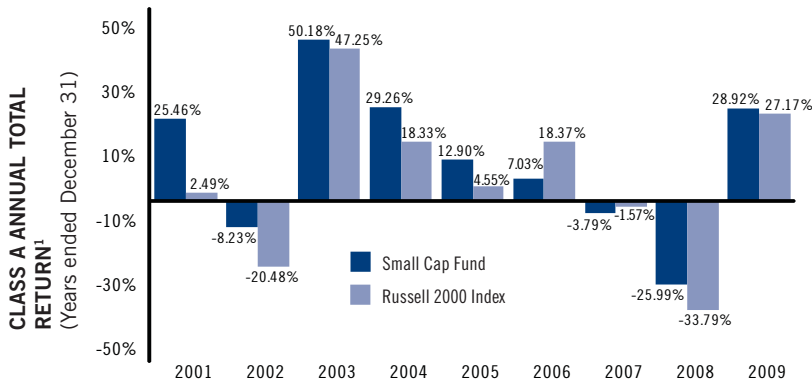
**MARKET CAPITALIZATION** The Fund normally invests at least 80% of its net assets in small capitalization companies, defined as those companies with a market capitalization below \$2.5 billion at the time of purchase by the Fund or those companies in the Russell 2000 Index.

*There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility than large capitalization issues.*

## Performance Update

Period & Average Annual Total Returns as of June 30, 2010	Second Quarter	Year to Date	One Year	Three Years	Five Years	Since Inception (12/29/00)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
Class A Shares	-6.63%	0.42%	23.70%	-4.54%	1.72%	10.08%	1.38%
Class C Shares	-6.81%	0.05%	22.82%	-5.25%	0.97%	9.25%	2.13%
Class I Shares	-6.55%	0.61%	24.21%	-4.17%	2.14%	10.32%	1.02%
<b>BENCHMARK</b>							
Russell 2000 Index	-9.92%	-1.95%	21.48%	-8.60%	0.37%	3.82%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
Class A Shares	-11.31%	-4.59%	17.52%	-6.17%	0.69%	9.48%	1.38%
Class C Shares	-7.74%	-0.95%	21.82%	-5.25%	0.97%	9.25%	2.13%

*The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the last month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com).*



The Russell 2000 Index is a market capitalization-weighted index measuring performance of the smallest 2,000 companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 3000 Index is a market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. One cannot invest directly in an index. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower.

<sup>1</sup> Figures do not reflect sales charges. If they did, the returns would be lower.

## Best Performers

Security Name	Second Quarter Contribution <sup>2</sup>	Position as of June 30
Cimarex Energy Co.	0.6%	2.6%
American Italian Pasta Co.	0.4%	1.6%
Hain Celestial Group, Inc.	0.2%	0.5%
Global Sources Ltd.	0.1%	0.9%
JAKKS Pacific, Inc.	0.1%	0.9%

## Worst Performers

Security Name	Second Quarter Contribution <sup>2</sup>	Position as of June 30
Assured Guaranty Ltd.	-1.6%	3.8%
Energizer Holdings, Inc.	-0.7%	3.8%
King Pharmaceuticals, Inc.	-0.6%	1.3%
Myriad Genetics, Inc.	-0.5%	1.0%
Brink's Co.	-0.5%	1.2%

## New Positions

Security Name	Position as of June 30
Ralcorp Holdings, Inc.	1.5%
Myriad Genetics, Inc.	1.0%
Kinetic Concepts, Inc.	1.0%
First American Financial Corp.	0.6%
Popular, Inc.	0.4%

## Eliminated Positions

Security Name
Analogic Corp.
BE Aerospace, Inc.
City National Corp.
LaSalle Hotel Properties

## Top Ten Holdings

Security	Industry	% of Portfolio
Assured Guaranty Ltd.	Insurance	3.8%
Energizer Holdings, Inc.	Household Products	3.8%
Assurant, Inc.	Insurance	3.6%
Flowers Foods, Inc.	Food Products	3.1%
Cimarex Energy Co.	Oil, Gas & Consumable Fuels	2.6%
Old Republic International Corp.	Insurance	2.4%
Whiting Petroleum Corp.	Oil, Gas & Consumable Fuels	2.2%
Arch Capital Group Ltd.	Insurance	2.1%
Verigy Ltd.	Semiconductors & Equipment	1.9%
Alliance Data Systems Corp.	IT Services	1.8%

## Portfolio Statistics *(Portfolio composition is subject to change)*

Total Net Assets	\$670M
Median Market Capitalization	\$1.5B
Portfolio Turnover Rate (12 months trailing)	50%
Number of Equity Securities in Portfolio	66
% of Net Assets in Cash & Cash Equivalents	19.6%

## 5-Year Risk Statistics\* *(Class A Load Waived)*

Annualized Standard Deviation (%)	19.20
Beta (%)	0.84
Sharpe Ratio	0.05
Alpha (%)	0.75
R-squared (%)	91.87
Upside / Downside Capture Ratio (%)	83 / 79

## Sector Allocation *(Overweight in bold)*

	Financials	Consumer Staples	Energy	Industrials	Health Care	Consumer Discretionary	Information Technology	Utilities	Materials	Telecom	Other	Cash & Equiv.
Small Cap Fund	<b>22.3%</b>	<b>12.8%</b>	<b>12.0%</b>	8.1%	7.5%	7.0%	6.4%	<b>4.3%</b>	—	—	—	19.6%
Russell 2000 Index	21.3%	3.2%	4.5%	15.8%	13.8%	14.0%	17.0%	3.3%	5.4%	1.1%	0.6%	—

## Fund Identification & Expenses

	Ticker Symbol	CUSIP	Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Net Operating Expenses	Minimum Initial Investment: Classes A & C: \$5,000 Class I: \$50,000
<b>A Shares</b>	DHSCX	25264S304	5.00%	None	0.80%	0.25%	0.33%	1.38%	<b>Distributions: Annual</b> <b>Lipper Classification: Small-Cap Core</b> <b>Morningstar Classification: Small-Cap Value</b>
<b>C Shares</b>	DHSMX	25264K103	None	1.00%	0.80%	1.00%	0.33%	2.13%	
<b>I Shares</b>	DHSIX	25264S858	None	None	0.80%	None	0.22%	1.02%	

<sup>2</sup>Contribution to Return (CR) is an approximate measure of the contribution by an individual position to the overall portfolio return of the stated period. A daily contribution for each position is calculated by multiplying the position's previous day ending position weight by its daily total return. The daily total return is determined by summing the end of day stock price and any dividends and dividing the result by the beginning stock price. These daily contributions are then geometrically linked to determine the CR for the entire stated period. The holdings identified do not represent all of the securities purchased, sold, or held in the Fund, and past performance does not guarantee future results.

**Performance is not guaranteed.** Performance returns assume reinvestment of all distributions. The total return figures for the Fund reflect the maximum sales charge applicable to each class. Class I and Class C shares include performance based on Class A shares, which was achieved prior to the creation of Class I and Class C shares. Class C returns have been restated for sales charges and for fees applicable to Class C shares, which includes a 1.00% 12b-1 fee. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. In such instances, and without such waiver of fees, the total returns would have been lower. Fund holding and sector weightings are subject to change without notice. The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge (CDSC) of 1.00% for redemptions within the first year of purchase; I shares have no sales charge.

**Investors should consider the investment objectives, risks, and charges and expenses of the Diamond Hill Funds carefully before investing. This and other information about the Funds is in the prospectus, which can be obtained at [www.diamond-hill.com](http://www.diamond-hill.com). Read the prospectus carefully before you invest. Diamond Hill Capital Management, Inc., a registered investment adviser, serves as Investment Adviser to the Diamond Hill Funds and is paid a fee for its services. The Diamond Hill Funds are distributed by BHIL Distributors, Inc. (Member FINRA), an affiliated company. Investors may obtain a copy of the current prospectus at 888-226-5595 or [www.diamond-hill.com](http://www.diamond-hill.com). Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.**

**\*Risk Statistic Definitions: Standard Deviation** is a statistical measure of the historical volatility of the portfolio. **Beta** is a measure of the volatility of a portfolio relative to the overall market. **Sharpe Ratio** is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. **Alpha** is a measure of the incremental return generated from active portfolio management. **R-squared** represents the percentage of the portfolio's movements that can be explained by the general movements of the market. **Upside/Downside Capture Ratio** measures a manager's ability to generate excess return above the benchmark return in up markets and retain more of the excess return in down markets. The upside/downside capture ratio is the Fund's up/down market return divided by the index's up/down market return. The up/down market return equals the linked returns for all quarters in which the index return was greater /less than zero.

# Small-Mid Cap Fund

## Investment Objective

- ◆ Long-term capital growth by investing in companies selling for less than our appraisal of intrinsic value.
- ◆ Suitable for investors with a 5-plus year investment horizon.

## Portfolio Management



Chris Welch, CFA  
Manager



Tom Schindler, CFA  
Assistant Manager



Chris Bingaman, CFA  
Assistant Manager

## Investment Strategy

**BUY STRATEGY** The Fund seeks to buy securities of companies at prices below our appraisal of intrinsic value. To determine intrinsic value, the business must be understandable and the cash flows must be reasonably estimable. In addition, we seek businesses with a lasting competitive advantage and management with an owner mentality such that shareholders will reap the rewards of the underlying business performance.

**SELL STRATEGY** Investments are sold when the stock price approximates our appraised intrinsic value. Ideally, this occurs as the stock price has risen and closed the gap with a growing intrinsic value. In a less than ideal situation, our estimate of intrinsic value may be revised such that the market

price is no longer at a discount to intrinsic value. In cases where we no longer have confidence we can predict with any reasonable accuracy the business cash flows, the mistake is admitted and the investment is sold. Finally, we may sell one investment in order to raise proceeds for investment in a more attractive alternative.

**FUND STRUCTURE** Typically 40-70 positions. Maximum sector exposure is 30%.

**MARKET CAPITALIZATION** The Fund normally invests at least 80% of its net assets in small and medium capitalization companies, defined as those companies with a market capitalization between \$500 million and \$10 billion at the time of purchase or those companies in the Russell 2500 Index.

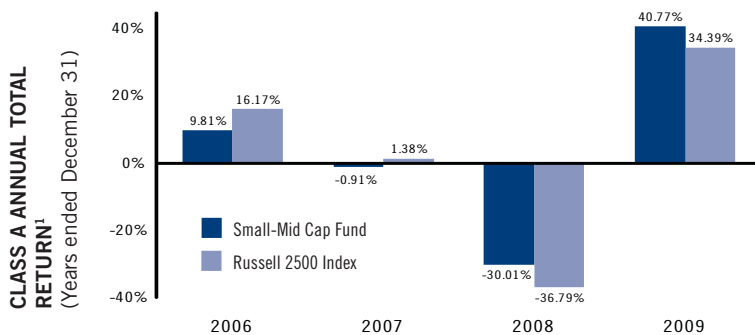
*There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility than large capitalization issues.*

## Performance Update

Period & Average Annual Total Returns as of June 30, 2010

	Second Quarter	Year to Date	One Year	Three Years	Five Years	Since Inception (12/30/05)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
Class A Shares	-6.88%	-0.68%	26.56%	-3.08%	—	1.41%	1.33%
Class C Shares	-6.95%	-1.00%	25.63%	-3.78%	—	0.70%	2.08%
Class I Shares	-6.78%	-0.49%	27.00%	-2.70%	—	1.80%	0.97%
<b>BENCHMARK</b>							
Russell 2500 Index	-9.98%	-1.69%	24.03%	-7.98%	—	-0.37%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
Class A Shares	-11.51%	-5.67%	20.26%	-4.72%	—	0.25%	1.33%
Class C Shares	-7.89%	-1.99%	24.63%	-3.78%	—	0.70%	2.08%

*The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the last month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com).*



The Russell 2500 Index is a market capitalization-weighted index measuring performance of the smallest 2,500 companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 3000 Index is a market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. One cannot invest directly in an index. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower.

<sup>1</sup> Figures do not reflect sales charges. If they did, the returns would be lower.

## Best Performers

Security Name	Second Quarter Contribution <sup>2</sup>	Position as of June 30
Cimarex Energy Co.	0.8%	3.7%
American Italian Pasta Co.	0.2%	1.0%
Hain Celestial Group, Inc.	0.2%	0.5%
Huntington Bancshares, Inc.	0.1%	0.9%
K-Swiss, Inc.	0.1%	1.1%

## Worst Performers

Security Name	Second Quarter Contribution <sup>2</sup>	Position as of June 30
Assured Guaranty Ltd.	-1.1%	2.1%
King Pharmaceuticals, Inc.	-1.1%	2.5%
Noble Energy, Inc.	-0.6%	3.6%
Verigy Ltd.	-0.5%	1.9%
Energizer Holdings, Inc.	-0.4%	2.2%



## New Positions

Security Name	Position as of June 30
Arch Capital Group Ltd.	2.2%
Molson Coors Brewing Co.	1.7%
Quest Diagnostics, Inc.	1.3%
Kinetic Concepts, Inc.	1.0%
Popular, Inc.	0.9%
Myriad Genetics, Inc.	0.9%
Linear Technology Corp.	0.8%
First American Financial Corp.	0.6%

## Eliminated Positions

Security Name
Analogic Corp.
City National Corp.

## Top Ten Holdings

Security	Industry	% of Portfolio
Cimarex Energy Co.	Oil, Gas & Consumable Fuels	3.7%
Noble Energy, Inc.	Oil, Gas & Consumable Fuels	3.6%
Dover Corp.	Machinery	3.2%
Old Republic International Corp.	Insurance	3.0%
Assurant, Inc.	Insurance	2.8%
Flowers Foods, Inc.	Food Products	2.6%
ConAgra Foods, Inc.	Food Products	2.6%
King Pharmaceuticals, Inc.	Pharmaceuticals	2.5%
Arch Capital Group Ltd.	Insurance	2.2%
Forest Laboratories, Inc.	Pharmaceuticals	2.2%

## Portfolio Statistics *(Portfolio composition is subject to change)*

Total Net Assets	\$46M
Median Market Capitalization	\$2.2B
Portfolio Turnover Rate (12 months trailing)	53%
Number of Equity Securities in Portfolio	63
% of Net Assets in Cash & Cash Equivalents	12.7%

## Risk Statistics\* *(Since Inception, Class A Load Waived)*

Annualized Standard Deviation (%)	22.31
Beta (%)	0.97
Sharpe Ratio	0.06
Alpha (%)	1.76
R-squared (%)	91.15
Upside / Downside Capture Ratio (%)	95 / 90

## Sector Allocation *(Overweight in bold)*

	Financials	Energy	Consumer Staples	Industrials	Health Care	Information Technology	Consumer Discretionary	Utilities	Materials	Telecom	Other	Cash & Equiv.
Small-Mid Cap Fund	19.6%	<b>17.1%</b>	<b>12.5%</b>	10.6%	10.0%	6.9%	5.8%	4.8%	—	—	—	12.7%
Russell 2500 Index	21.1%	5.6%	3.4%	14.4%	11.6%	14.7%	14.4%	5.9%	7.3%	1.2%	0.4%	—

## Fund Identification & Expenses

	Ticker Symbol	CUSIP	Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Net Operating Expenses	Minimum Initial Investment: Classes A & C: \$2,500 Class I: \$50,000
<b>A Shares</b>	DHMAX	25264S817	5.00%	None	0.75%	0.25%	0.33%	1.33%	Distributions: Annual
<b>C Shares</b>	DHMCX	25264S791	None	1.00%	0.75%	1.00%	0.33%	2.08%	Lipper Classification: Mid-Cap Core
<b>I Shares</b>	DHMIX	25264S783	None	None	0.75%	None	0.22%	0.97%	Morningstar Classification: Mid-Cap Value

\*Contribution to Return (CR) is an approximate measure of the contribution by an individual position to the overall portfolio return of the stated period. A daily contribution for each position is calculated by multiplying the position's previous day ending position weight by its daily total return. The daily total return is determined by summing the end of day stock price and any dividends and dividing the result by the beginning stock price. These daily contributions are then geometrically linked to determine the CR for the entire stated period. The holdings identified do not represent all of the securities purchased, sold, or held in the Fund, and past performance does not guarantee future results.

**Performance is not guaranteed.** Performance returns assume reinvestment of all distributions. The total return figures for the Fund reflect the maximum sales charge applicable to each class. Class I and Class C shares include performance based on Class A shares, which was achieved prior to the creation of Class I and Class C shares. Class C returns have been restated for sales charges and for fees applicable to Class C shares, which includes a 1.00% 12b-1 fee. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. In such instances, and without such waiver of fees, the total returns would have been lower. Fund holding and sector weightings are subject to change without notice. The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge (CDSC) of 1.00% for redemptions within the first year of purchase; I shares have no sales charge.

**Investors should consider the investment objectives, risks, and charges and expenses of the Diamond Hill Funds carefully before investing. This and other information about the Funds is in the prospectus, which can be obtained at [www.diamond-hill.com](http://www.diamond-hill.com). Read the prospectus carefully before you invest. Diamond Hill Capital Management, Inc., a registered investment adviser, serves as Investment Adviser to the Diamond Hill Funds and is paid a fee for its services. The Diamond Hill Funds are distributed by BHIL Distributors, Inc. (Member FINRA), an affiliated company. Investors may obtain a copy of the current prospectus at 888-226-5595 or [www.diamond-hill.com](http://www.diamond-hill.com). Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.**

**\*Risk Statistic Definitions:** Standard Deviation is a statistical measure of the historical volatility of the portfolio. Beta is a measure of the volatility of a portfolio relative to the overall market. Sharpe Ratio is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. Alpha is a measure of the incremental return generated from active portfolio management. R-squared represents the percentage of the portfolio's movements that can be explained by the general movements of the market. Upside/Downside Capture Ratio measures a manager's ability to generate excess return above the benchmark return in up markets and retain more of the excess return in down markets. The upside/downside capture ratio is the Fund's up/down market return divided by the index's up/down market return. The up/down market return equals the linked returns for all quarters in which the index return was greater /less than zero.

# Large Cap Fund

## Investment Objective

- ◆ Long-term capital growth by investing in companies selling for less than our appraisal of intrinsic value.
- ◆ Suitable for investors with a 5-plus year investment horizon.

## Investment Strategy

**BUY STRATEGY** The Fund seeks to buy securities of companies at prices below our appraisal of intrinsic value. To determine intrinsic value, the business must be understandable and the cash flows must be reasonably estimable. In addition, we seek businesses with a lasting competitive advantage and management with an owner mentality such that shareholders will reap the rewards of the underlying business performance.

**SELL STRATEGY** Investments are sold when the stock price approximates our appraised intrinsic value. Ideally, this occurs as the stock price has risen and closed the gap with a growing intrinsic value. In a less than ideal situation, our estimate of intrinsic value may be revised such that the

market price is no longer at a discount to intrinsic value. In cases where we no longer have confidence we can predict with any reasonable accuracy the business cash flows, the mistake is admitted and the investment is sold. Finally, we may sell one investment in order to raise proceeds for investment in a more attractive alternative.

**FUND STRUCTURE** Typically 40-60 positions. Maximum sector exposure is 30%.

**MARKET CAPITALIZATION** The Fund normally invests at least 80% of its net assets in large capitalization companies, defined as those companies with a market capitalization of \$5 billion or greater or those companies in the Russell 1000 Index.

## Portfolio Management



**Chuck Bath, CFA**  
Manager



**Bill Dierker, CFA**  
Assistant Manager



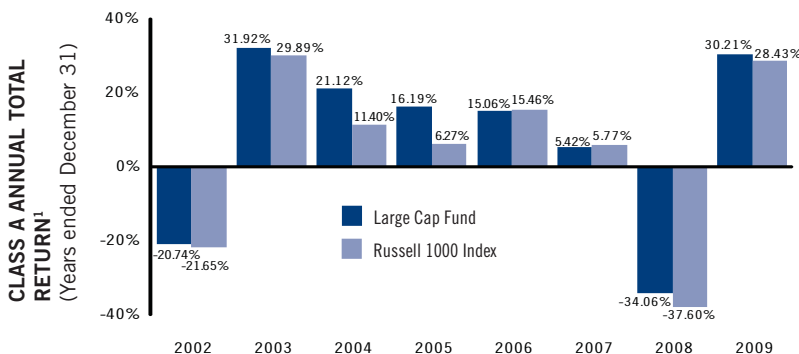
**Chris Welch, CFA**  
Assistant Manager

## Performance Update

Period & Average Annual Total Returns as of June 30, 2010

	Second Quarter	Year to Date	One Year	Three Years	Five Years	Since Inception (6/29/01)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
Class A Shares	-12.59%	-8.74%	14.46%	-7.85%	1.12%	3.88%	1.16%
Class C Shares	-12.75%	-9.10%	13.66%	-8.56%	0.36%	3.06%	1.91%
Class I Shares	-12.48%	-8.57%	14.91%	-7.50%	1.51%	4.12%	0.80%
<b>BENCHMARK</b>							
Russell 1000 Index	-11.44%	-6.40%	15.24%	-9.54%	-0.56%	0.43%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
Class A Shares	-16.97%	-13.32%	8.76%	-9.41%	0.08%	3.28%	1.16%
Class C Shares	-13.62%	-10.01%	12.66%	-8.56%	0.36%	3.06%	1.91%

*The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the last month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com).*



The Russell 1000 Index is a market capitalization-weighted index measuring performance of the largest 1,000 companies, on a market capitalization basis, in the Russell 3000 Index, a market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. One cannot invest directly in an index. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower.

<sup>1</sup> Figures do not reflect sales charges. If they did, the returns would be lower.

## Best Performers

Security Name	Second Quarter Contribution <sup>2</sup>	Position as of June 30
General Mills, Inc.	0.0%	2.1%
McDonald's Corp.	0.0%	2.0%
Kimberly-Clark Corp.	0.0%	2.1%
Sysco Corp.	-0.1%	2.0%
Alliance Data Systems Corp.	-0.1%	0.7%

## Worst Performers

Security Name	Second Quarter Contribution <sup>2</sup>	Position as of June 30
Anadarko Petroleum Corp.	-2.0%	2.3%
Apache Corp.	-0.7%	3.9%
Medtronic, Inc.	-0.7%	3.4%
Microsoft Corp.	-0.6%	2.3%
JPMorgan Chase & Co.	-0.6%	2.9%



## New Positions

Security Name	Position as of June 30
Air Products & Chemicals, Inc.	2.0%
Exxon Mobil Corp.	2.0%
Quest Diagnostics, Inc.	1.2%

## Eliminated Positions

Security Name
Transocean Ltd.
XTO Energy, Inc.

## Top Ten Holdings

Security	Industry	% of Portfolio
Apache Corp.	Oil, Gas & Consumable Fuels	3.9%
Occidental Petroleum Corp.	Oil, Gas & Consumable Fuels	3.9%
Devon Energy Corp.	Oil, Gas & Consumable Fuels	3.6%
United Technologies Corp.	Aerospace & Defense	3.5%
Medtronic, Inc.	Health Care Equipment & Supplies	3.4%
Procter & Gamble Co.	Household Products	3.1%
Abbott Laboratories	Pharmaceuticals	3.0%
PepsiCo, Inc.	Beverages	3.0%
Merck & Co., Inc.	Pharmaceuticals	3.0%
Pfizer, Inc.	Pharmaceuticals	2.9%

## Portfolio Statistics *(Portfolio composition is subject to change)*

Total Net Assets	\$830M
Median Market Capitalization	\$26.2B
Portfolio Turnover Rate (12 months trailing)	23%
Number of Equity Securities in Portfolio	44
% of Net Assets in Cash & Cash Equivalents	5.6%

## 5 Year Risk Statistics\* *(Class A Load Waived)*

Annualized Standard Deviation (%)	16.72
Beta (%)	0.94
Sharpe Ratio	-0.01
Alpha (%)	1.48
R-squared (%)	93.79
Upside / Downside Capture Ratio (%)	97 / 90

## Sector Allocation *(Overweight in bold)*

	Health Care	Energy	Financials	Consumer Staples	Industrials	Information Technology	Consumer Discretionary	Utilities	Materials	Telecom	Cash & Equiv.
Large Cap Fund	<b>19.8%</b>	<b>15.6%</b>	14.9%	<b>14.2%</b>	<b>13.6%</b>	7.7%	4.0%	2.6%	2.0%	—	5.6%
Russell 1000 Index	12.6%	10.3%	16.8%	9.2%	10.5%	18.1%	11.8%	3.8%	3.9%	3.0%	—

## Fund Identification & Expenses

	Ticker Symbol	CUSIP	Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Net Operating Expenses	Minimum Initial Investment: Classes A & C: \$2,500 Class I: \$50,000
<b>A Shares</b>	DHLAX	25264S502	5.00%	None	0.60%	0.25%	0.31%	1.16%	Distributions: Annual
<b>C Shares</b>	DHLCX	25264S601	None	1.00%	0.60%	1.00%	0.31%	1.91%	Lipper Classification: Large-Cap Core
<b>I Shares</b>	DHLRX	25264S841	None	None	0.60%	None	0.20%	0.80%	Morningstar Classification: Large-Cap Value

<sup>2</sup>Contribution to Return (CR) is an approximate measure of the contribution by an individual position to the overall portfolio return of the stated period. A daily contribution for each position is calculated by multiplying the position's previous day ending position weight by its daily total return. The daily total return is determined by summing the end of day stock price and any dividends and dividing the result by the beginning stock price. These daily contributions are then geometrically linked to determine the CR for the entire stated period. The holdings identified do not represent all of the securities purchased, sold, or held in the Fund, and past performance does not guarantee future results.

**Performance is not guaranteed.** Performance returns assume reinvestment of all distributions. The total return figures for the Fund reflect the maximum sales charge applicable to each class. Class I and Class C shares include performance based on Class A shares, which was achieved prior to the creation of Class I and Class C shares. Class C returns have been restated for sales charges and for fees applicable to Class C shares, which includes a 1.00% 12b-1 fee. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. In such instances, and without such waiver of fees, the total returns would have been lower. Fund holding and sector weightings are subject to change without notice. Because this Fund expects to hold a concentrated portfolio of a limited number of securities, a decline in the value of these investments would cause the Fund's overall value to decline to a greater degree than a less concentrated portfolio. The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge

(CDSC) of 1.00% for redemptions within the first year of purchase; I shares have no sales charge.

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**\*Risk Statistic Definitions: Standard Deviation** is a statistical measure of the historical volatility of the portfolio. **Beta** is a measure of the volatility of a portfolio relative to the overall market. **Sharpe Ratio** is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. **Alpha** is a measure of the incremental return generated from active portfolio management. **R-squared** represents the percentage of the portfolio's movements that can be explained by the general movements of the market. **Upside/Downside Capture Ratio** measures a manager's ability to generate excess return above the benchmark return in up markets and retain more of the excess return in down markets. The upside/downside capture ratio is the Fund's up/down market return divided by the index's up/down market return. The up/down market return equals the linked returns for all quarters in which the index return was greater /less than zero.

# Select Fund

## Investment Objective

- ◆ Long-term capital growth by investing in companies selling for less than our appraisal of intrinsic value.
- ◆ Suitable for investors with a 5-plus year investment horizon.

## Investment Strategy

**BUY STRATEGY** The Fund seeks to buy securities of companies at prices below our appraisal of intrinsic value. To determine intrinsic value, the business must be understandable and the cash flows must be reasonably estimable. In addition, we seek businesses with a lasting competitive advantage and management with an owner mentality such that shareholders will reap the rewards of the underlying business performance.

**SELL STRATEGY** Investments are sold when the stock price approximates our appraised intrinsic value. Ideally, this occurs as the stock price has risen and closed the gap with a growing intrinsic value. In a less than ideal situation, our estimate of intrinsic value may be revised such that the market price is no longer at a discount

to intrinsic value. In cases where we no longer have confidence we can predict with any reasonable accuracy the business cash flows, the mistake is admitted and the investment is sold. Finally, we may sell one investment in order to raise proceeds for investment in a more attractive alternative.

**FUND STRUCTURE** Typically 30–40 positions. Maximum sector exposure is 30%.

**MARKET CAPITALIZATION** The Fund normally invests in securities of all market capitalizations, defined as those companies with a market cap of \$500M or greater, or those companies in the Russell 3000 Index. The Fund's Adviser anticipates that each of the Fund's investments will also be held in the Diamond Hill Large Cap Fund, Diamond Hill Small-Mid Cap Fund, or the Diamond Hill Small Cap Fund.

### Portfolio Management



**Bill Dierker, CFA**  
Manager



**Chuck Bath, CFA**  
Assistant Manager



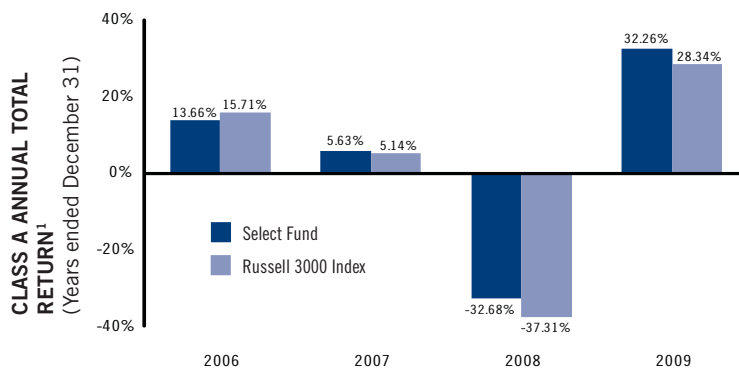
**Chris Welch, CFA**  
Assistant Manager

## Performance Update

Period & Average Annual Total Returns as of June 30, 2010

	Second Quarter	Year to Date	One Year	Three Years	Five Years	Since Inception (12/30/05)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
Class A Shares	-11.10%	-7.65%	16.67%	-6.56%	—	-0.29%	1.27%
Class C Shares	-11.33%	-8.05%	15.61%	-7.28%	—	-1.00%	2.02%
Class I Shares	-10.99%	-7.54%	16.97%	-6.19%	—	0.09%	0.91%
<b>BENCHMARK</b>							
Russell 3000 Index	-11.32%	-6.05%	15.72%	-9.47%	—	-1.84%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
Class A Shares	-15.52%	-12.22%	10.77%	-8.15%	—	-1.42%	1.27%
Class C Shares	-12.21%	-8.97%	14.61%	-7.28%	—	-1.00%	2.02%

*The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the last month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com).*



The Russell 3000 is a widely recognized unmanaged market capitalization-weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. The Russell 3000 does not take into account the deduction of expenses associated with a mutual fund, such as investment management and accounting fees. One cannot invest directly in an index. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower.

<sup>1</sup> Figures do not reflect sales charges. If they did, the returns would be lower.

## Best Performers

Security Name	Second Quarter Contribution <sup>2</sup>	Position as of June 30
Cimarex Energy Co.	0.5%	2.4%
Exterran Holdings, Inc.	0.1%	1.7%
McDonald's Corp.	0.0%	2.0%
Assurant, Inc.	0.0%	1.2%
General Mills, Inc.	0.0%	2.0%

## Worst Performers

Security Name	Second Quarter Contribution <sup>2</sup>	Position as of June 30
Anadarko Petroleum Corp.	-1.7%	2.1%
Assured Guaranty Ltd.	-1.0%	2.0%
Baxter International, Inc.	-0.9%	2.5%
Medtronic, Inc.	-0.6%	2.9%
Microsoft Corp.	-0.6%	2.2%



## New Positions

Security Name	Position as of June 30
Air Products & Chemicals, Inc.	2.4%
3M Co.	2.1%
Arch Capital Group Ltd.	1.5%

## Eliminated Positions

Security Name
None

## Top Ten Holdings

Security	Industry	% of Portfolio
ConAgra Foods, Inc.	Food Products	4.0%
Sysco Corp.	Food Products	3.8%
Travelers Cos., Inc.	Insurance	3.2%
United Technologies Corp.	Aerospace & Defense	3.2%
Dover Corp.	Machinery	3.1%
Procter & Gamble Co.	Household Products	3.0%
Merck & Co., Inc.	Pharmaceuticals	3.0%
Wells Fargo & Co.	Banking Services	3.0%
Medtronic, Inc.	Health Care Equipment & Supplies	2.9%
Apache Corp.	Oil, Gas & Consumable Fuels	2.9%

## Portfolio Statistics *(Portfolio composition is subject to change)*

Total Net Assets	\$33M
Median Market Capitalization	\$24.7B
Portfolio Turnover Rate (12 months trailing)	24%
Number of Equity Securities in Portfolio	40
% of Net Assets in Cash & Cash Equivalents	8.0%

## Risk Statistics\* *(Since Inception, Class A Load Waived)*

Annualized Standard Deviation (%)	17.67
Beta (%)	0.94
Sharpe Ratio	-0.07
Alpha (%)	1.30
R-squared (%)	93.68
Upside / Downside Capture Ratio (%)	96 / 90

## Sector Allocation *(Overweight in bold)*

	Health Care	Financials	Energy	Consumer Staples	Industrials	Information Technology	Consumer Discretionary	Materials	Utilities	Telecom	Other	Cash & Equiv.
Select Fund	<b>18.8%</b>	15.6%	<b>15.3%</b>	<b>14.7%</b>	<b>14.0%</b>	6.2%	4.0%	2.4%	1.0%	—	—	8.0%
Russell 3000 Index	12.7%	17.2%	9.8%	8.7%	10.9%	18.0%	12.0%	4.0%	3.8%	2.8%	0.1%	—

## Fund Identification & Expenses

	Ticker Symbol	CUSIP	Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Net Operating Expenses	Minimum Initial Investment: Classes A & C: \$2,500 Class I: \$50,000
<b>A Shares</b>	DHTAX	25264S775	5.00%	None	0.70%	0.25%	0.32%	1.27%	Distributions: Annual
<b>C Shares</b>	DHTCX	25264S767	None	1.00%	0.70%	1.00%	0.32%	2.02%	Lipper Classification: Multi-Cap Core
<b>I Shares</b>	DHLTX	25264S759	None	None	0.70%	None	0.21%	0.91%	Morningstar Classification: Large-Cap Value

<sup>2</sup>Contribution to Return (CR) is an approximate measure of the contribution by an individual position to the overall portfolio return of the stated period. A daily contribution for each position is calculated by multiplying the position's previous day ending position weight by its daily total return. The daily total return is determined by summing the end of day stock price and any dividends and dividing the result by the beginning stock price. These daily contributions are then geometrically linked to determine the CR for the entire stated period. The holdings identified do not represent all of the securities purchased, sold, or held in the Fund, and past performance does not guarantee future results.

**Performance is not guaranteed.** Performance returns assume reinvestment of all distributions. The total return figures for the Fund reflect the maximum sales charge applicable to each class. Class I and Class C shares include performance based on Class A shares, which was achieved prior to the creation of Class I and Class C shares. Class C returns have been restated for sales charges and for fees applicable to Class C shares, which includes a 1.00% 12b-1 fee. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. In such instances, and without such waiver of fees, the total returns would have been lower. Fund holding and sector weightings are subject to change without notice. Because this Fund expects to hold a concentrated portfolio of a limited number of securities, a decline in the value of these investments would cause the Fund's overall value to decline to a greater degree than a less concentrated portfolio. The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge

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# Long-Short Fund

## Investment Objective

- ◆ Long-term capital growth by investing in companies selling for less than and shorting companies selling for more than our appraisal of intrinsic value.
- ◆ Seek positive total returns on both long and short positions.
- ◆ Tends to have reduced volatility compared to long-only funds.
- ◆ Suitable for investors with a 5+ year investment horizon.

## Portfolio Management



**Chuck Bath, CFA**  
Co-Manager



**Ric Dillon, CFA**  
Co-Manager



**Chris Bingaman, CFA**  
Assistant Manager

## Investment Strategy

**BUY LONG / SELL SHORT STRATEGY** The Fund seeks to buy long or sell short securities of companies at prices below or above our appraisal of intrinsic value. To determine intrinsic value, the business must be understandable and the cash flows must be reasonably estimable. In addition, we seek businesses with a lasting competitive advantage and management with an owner mentality such that shareholders will reap the rewards of the underlying business performance.

**SELL LONG / COVER SHORT STRATEGY** Investments are sold or shorts covered when the stock price approximates our appraised intrinsic value. Ideally, this occurs as the stock price has risen and closed the gap with a growing intrinsic value. In a less than ideal situation, our estimate of intrinsic value may be revised such that the market price is no longer at a discount to intrinsic value. In

cases where we no longer have confidence we can predict with any reasonable accuracy the business cash flows, the mistake is admitted and the investment is sold. Finally, we may sell one investment in order to raise proceeds for investment in a more attractive alternative.

## FUND STRUCTURE

- A long-biased fund with typically 20-60 long positions and 20-60 short positions.
- Total long positions are between 80-100% of net assets, with total short positions comprising 20-40% of net assets.

## EXPOSURE

- Target gross market exposure (long % + short %) = Up to 140%
- Target net market exposure (long % - short %) = Between 40%-65%

*The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have the risk of unlimited losses.*

## Performance Update

Period & Average Annual Total Returns as of June 30, 2010

	Second Quarter	Year to Date	One Year	Three Years	Five Years	Ten Years	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
Class A Shares	-8.56%	-9.56%	3.65%	-5.58%	2.13%	5.23%	1.84% <sup>1</sup>
Class C Shares	-8.74%	-9.91%	2.87%	-6.31%	1.36%	4.42%	2.59% <sup>1</sup>
Class I Shares	-8.43%	-9.38%	4.13%	-5.21%	2.54%	5.46%	1.48% <sup>1</sup>
<b>BENCHMARK</b>							
Russell 1000 Index	-11.44%	-6.40%	15.24%	-9.54%	-0.56%	-1.22%	—
50% Russell 1000 Index / 50% BofA ML US T-Bill 0-3 Mo. Index	-5.75%	-3.03%	7.80%	-3.66%	1.41%	1.01%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
Class A Shares	-13.13%	-14.09%	-1.54%	-7.19%	1.09%	4.69%	1.84%
Class C Shares	-9.65%	-10.81%	1.87%	-6.31%	1.36%	4.42%	2.59%

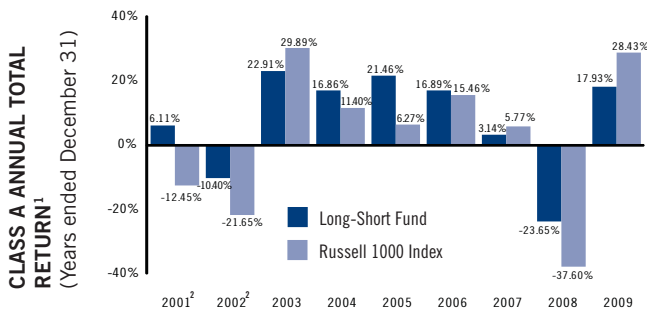
*The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the last month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com).*

The Russell 1000 Index is a market capitalization-weighted index measuring performance of the largest 1,000 companies, on a market capitalization basis, in the Russell 3000 Index, a market-capitalization weighted index

measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. The blended index represents a 50% weighting of the Russell 1000 Index as described above and a 50% weighting of the BofA Merrill Lynch US T-Bill 0-3 Month Index. The BofA Merrill Lynch US T-Bill 0-3 Month Index tracks the performance of US dollar denominated US Treasury Bills publicly issued in the US domestic market with a remaining term to final maturity of less than 3 months. One cannot invest directly in an index. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower.

<sup>1</sup>Figures do not reflect sales charges. If they did, the returns would be lower.

<sup>2</sup>The fund was long-only from inception through June 2002. Fund inception date: 6/30/2000.



## Best Performers

Security Name	Second Quarter Contribution <sup>3</sup>	Position as of June 30
Cimarex Energy Co.	0.3%	1.2%-Long
General Mills, Inc.	0.0%	2.3%-Long
Assurant, Inc.	0.0%	1.1%-Long
Career Education Corp.	0.6%	(1.8%)-Short
Royal Caribbean Cruises Ltd.	0.5%	(1.3%)-Short
Dow Chemical Co.	0.4%	(1.7%)-Short

## Worst Performers

Security Name	Second Quarter Contribution <sup>3</sup>	Position as of June 30
Anadarko Petroleum Corp.	-2.1%	2.4%-Long
Apache Corp.	-0.7%	3.9%-Long
Assured Guaranty Ltd.	-0.7%	1.2%-Long
Akamai Technologies, Inc.	-0.3%	(1.4%)-Short
Netflix, Inc.	-0.2%	(0.8%)-Short
Salesforce.com, Inc.	-0.2%	(1.5%)-Short

## New Positions

Security Name	Position as of June 30
3M Co.	2.1%-Long
Exxon Mobil Corp.	2.0%-Long
Air Products & Chemicals, Inc.	1.9%-Long
Quest Diagnostics, Inc.	1.3%-Long

## Eliminated Positions

Security Name
Tranocean Ltd. - Long
XTO Energy, Inc. - Long
Chipotle Mexican Grill, Inc. - Short
Colgate-Palmolive Co. - Short
Dean Foods Co. - Short
J.C. Penney Co., Inc. - Short
Laboratory Corp. of America Holdings - Short
Prosperity Bancshares, Inc. - Short

## Top Five Long Holdings

Security	Industry	% of Portfolio
Occidental Petroleum Corp.	Oil, Gas & Consumable Fuels	4.1%
Apache Corp.	Oil, Gas & Consumable Fuels	3.9%
United Technologies Corp.	Aerospace & Defense	3.2%
Procter & Gamble Co.	Household Products	3.0%
Medtronic, Inc.	Health Care Equipment & Supplies	2.9%

## Top Five Short Holdings

Security	Industry	% of Portfolio
Tractor Supply Co.	Specialty Retail	(1.9%)
Career Education Corp.	Diversified Consumer Services	(1.8%)
Dow Chemical Co.	Chemicals	(1.7%)
Omnicare, Inc.	Health Care Providers & Services	(1.6%)
Boeing Co.	Aerospace & Defense	(1.6%)

## Portfolio Statistics *(Portfolio composition is subject to change)*

Total Net Assets	\$1.9B
Median Market Capitalization—Long/(Short)	\$24.7B/(\$4.7B)
Portfolio Turnover Rate (12 months trailing)	36%*
Number of Long/(Short) Equity Securities in Portfolio	44/(28)
Long/(Short) Securities (% of Net Assets)	88.2%/(28.8%)
Gross Exposure (Long + Short)	117.0%
Net Exposure (Long - Short)	59.4%
% of Net Assets in Cash & Equivalents	11.8%

\* This calculation is the lesser of long buys plus short sales or long sales plus short covers divided by the monthly average value of portfolio securities, excluding cash.

## 5-Year Risk Statistics\* *(Class A Load Waived)*

Annualized Standard Deviation (%)	12.12
Beta (%)	0.61†
Sharpe Ratio	0.02
Alpha (%)	1.23†
R-squared (%)	74.75†
Upside / Downside Capture Ratio (%)	64 / 54†

† Relative to the Russell 1000 Index.

## Sector Allocation *(Overweight in bold)*

	Health Care	Energy	Industrials	Financials	Consumer Staples	Information Technology	Consumer Discretionary	Utilities	Materials	Telecom	Cash & Equiv.
Long Portfolio	<b>17.3%</b>	<b>16.4%</b>	<b>13.5%</b>	13.1%	<b>12.3%</b>	7.3%	3.8%	2.6%	1.9%	—	11.8%
Russell 1000 Index	12.6%	10.3%	10.5%	16.8%	9.2%	18.1%	11.8%	3.8%	3.9%	3.0%	—
Short Portfolio	(3.0%)	—	(2.0%)	—	(1.7%)	(2.8%)	(17.0%)	—	(1.7%)	(0.6%)	—

## Fund Identification & Expenses

	Ticker Symbol	CUSIP	Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Net Operating Expenses	Minimum Initial Investment: Classes A & C: \$2,500 Class I: \$50,000
<b>A Shares</b>	DIAMX	25264S403	5.00%	None	0.90%	0.25%	0.69%	1.84% <sup>4</sup>	Distributions: Annual
<b>C Shares</b>	DHFCX	25264E107	None	1.00%	0.90%	1.00%	0.69%	2.59% <sup>4</sup>	Lipper Classification: Long-Short
<b>I Shares</b>	DHLSX	25264S833	None	None	0.90%	None	0.58%	1.48% <sup>4</sup>	Morningstar Classification: Long-Short

<sup>4</sup>Includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Total Expense Ratio for the Long-Short Fund would have been 1.47% for Class A, 2.22% for Class C, and 1.11% for Class I.

<sup>3</sup>Contribution to Return (CR) is an approximate measure of the contribution by an individual position to the overall portfolio return of the stated period. A daily contribution for each position is calculated by multiplying the position's previous day ending position weight by its daily total return. The daily total return is determined by summing the end of day stock price and any dividends and dividing the result by the beginning stock price. These daily contributions are then geometrically linked to determine the CR for the entire stated period. The holdings identified do not represent all of the securities purchased, sold, or held in the Fund, and past performance does not guarantee future results.

**Performance is not guaranteed.** Performance returns assume reinvestment of all distributions. The total return figures for the Fund reflect the maximum sales charge applicable to each class. Class I and Class C shares include performance based on Class A shares, which was achieved prior to the creation of Class I and Class C shares. Class C returns have been restated for sales charges and for fees applicable to Class C shares, which includes a 1.00% 12b-1 fee. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. In such instances, and without such waiver of fees, the total returns would have been lower. Fund holding and sector weightings are subject to change without notice. The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge (CDSC) of 1.00% for redemptions within the first year of purchase; I shares have no sales charge.

**Investors should consider the investment objectives, risks, and charges and expenses of the Diamond Hill Funds carefully before investing. This and other information about the Funds is in the prospectus, which can be obtained at [www.diamond-hill.com](http://www.diamond-hill.com). Read the prospectus carefully before you invest. Diamond Hill Capital Management, Inc., a registered investment adviser, serves as Investment Adviser to the Diamond Hill Funds and is paid a fee for its services. The Diamond Hill Funds are distributed by BHIL Distributors, Inc. (Member FINRA), an affiliated company. Investors may obtain a copy of the current prospectus at 888-226-5595 or [www.diamond-hill.com](http://www.diamond-hill.com). Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.**

**\*Risk Statistic Definitions: Standard Deviation** is a statistical measure of the historical volatility of the portfolio. **Beta** is a measure of the volatility of a portfolio relative to the overall market. **Sharpe Ratio** is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. **Alpha** is a measure of the incremental return generated from active portfolio management. **R-squared** represents the percentage of the portfolio's movements that can be explained by the general movements of the market. **Upside/Downside Capture Ratio** measures a manager's ability to generate excess return above the benchmark return in up markets and retain more of the excess return in down markets. The upside/downside capture ratio is the Fund's up/down market return divided by the index's up/down market return. The up/down market return equals the linked returns for all quarters in which the index return was greater/less than zero.

# Financial Long-Short Fund

## Investment Objective

- ◆ Long-term capital growth by investing in companies selling for less than and shorting companies selling for more than our appraisal of intrinsic value.
- ◆ Seek positive total returns on both long and short positions.
- ◆ Suitable for investors with a 5+ year investment horizon.

## Investment Strategy

**BUY LONG / SELL SHORT STRATEGY** The Fund seeks to buy long or sell short securities of companies at prices below or above our appraisal of intrinsic value. To determine intrinsic value, the business must be understandable and the cash flows must be reasonably estimable. In addition, we seek businesses with a lasting competitive advantage and management with an owner mentality such that shareholders will reap the rewards of the underlying business performance.

**SELL LONG / COVER SHORT STRATEGY** Investments are sold or shorts covered when the stock price approximates our appraised intrinsic value. Ideally, this occurs as the stock price has risen and closed the gap with a growing intrinsic value. In a less than ideal situation, our estimate of intrinsic value may be revised such that the market price is no longer at a discount to intrinsic value. In

cases where we no longer have confidence we can predict with any reasonable accuracy the business cash flows, the mistake is admitted and the investment is sold. Finally, we may sell one investment in order to raise proceeds for investment in a more attractive alternative.

### FUND STRUCTURE

- A long-biased fund with typically 30–50 long positions and 10–25 short positions.
- Total long positions are between 80–100% of net assets, with total short positions comprising 5–25% of net assets.

### EXPOSURE

- Target gross market exposure (long % + short %) = Up to 125%
- Target net market exposure (long % - short %) = Between 60%–90%

*The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have the risk of unlimited losses.*

## Portfolio Management



Chris Bingham, CFA  
Manager



Austin Hawley, CFA  
Assistant Manager

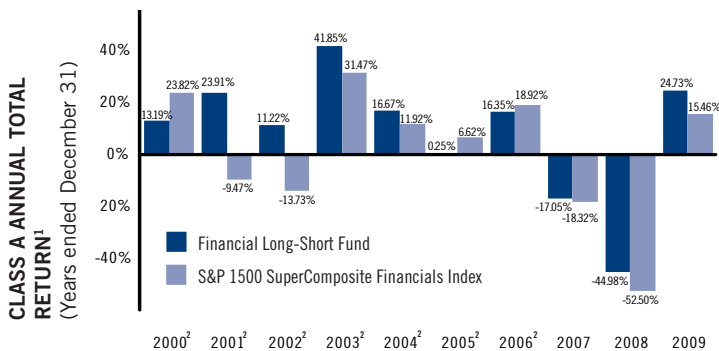


John Loesch, CFA  
Assistant Manager

## Performance Update

Period & Average Annual Total Returns as of June 30, 2010	Second Quarter	Year to Date	One Year	Three Years	Five Years	Ten Years	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
Class A Shares	-10.52%	1.15%	25.57%	-17.07%	-7.21%	7.31%	1.76% <sup>1</sup>
Class C Shares	-10.65%	0.80%	24.65%	-17.74%	-7.94%	6.57%	2.51% <sup>1</sup>
Class I Shares	-10.40%	1.35%	26.11%	-16.72%	-6.92%	7.48%	1.40% <sup>1</sup>
<b>BENCHMARK</b>							
S&P 1500 SuperComposite Financials Index	-12.65%	-3.03%	18.57%	-23.81%	-10.74%	-2.13%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
Class A Shares	-14.99%	-3.92%	19.27%	-18.47%	-8.15%	6.76%	1.76%
Class C Shares	-11.54%	-0.20%	23.65%	-17.74%	-7.94%	6.57%	2.51%

*The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the last month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com).*



The S&P 1500 SuperComposite Financials Index is a market capitalization-weighted index which is comprised of companies that represent the Financial Services Sector weighting within the S&P 500 SuperComposite. The S&P 1500 SuperComposite is a broad-based market capitalization-weighted index of 1500 U.S. companies that is comprised of the S&P 400, S&P 500 and S&P 600 Indexes. One cannot invest directly in an index. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower.

<sup>1</sup>Figures do not reflect sales charges. If they did, the returns would be lower.

<sup>2</sup>The fund was long-only from inception through April 2006. Fund inception date: 8/1/1997.

## Best Performers

Security Name	Second Quarter Contribution <sup>3</sup>	Position as of June 30
Horace Mann Educators Corp.	0.1%	1.4%-Long
First of Long Island Corp.	0.1%	1.5%-Long
Assurant, Inc.	0.0%	3.8%-Long
Prosperity Bancshares, Inc.	0.2%	(0.0%)-Short
KBW, Inc.	0.1%	(0.4%)-Short
Home BancShares, Inc.	0.1%	(1.1%)-Short

## Worst Performers

Security Name	Second Quarter Contribution <sup>3</sup>	Position as of June 30
Assured Guaranty Ltd.	-1.7%	3.4%-Long
Wells Fargo & Co.	-1.3%	6.1%-Long
JPMorgan Chase & Co.	-1.2%	6.5%-Long
M&T Bank Corp.	-0.1%	(1.6%)-Short
Hancock Holding Co.	0.0%	(0.0%)-Short
Westamerica Bancorp	0.0%	(0.5%)-Short

## New Positions

Security Name	Position as of June 30
XL Capital Ltd.	2.2%-Long
Popular, Inc.	1.6%-Long
First American Financial Corp.	0.3%-Long

## Eliminated Positions

Security Name
City National Corp. - Long
Comerica, Inc. - Long
First Tenn. Bank Asset Mgmt. 4.5% 5/15/13 - Long
Regions Financing Trust III 8.875% Tr Pfd - Long
Hancock Holding Co. - Short
Prosperity Bancshares, Inc. - Short

## Top Five Long Holdings

Security	Industry	% of Portfolio
JPMorgan Chase & Co.	Financial Services	6.5%
Wells Fargo & Co.	Banking Services	6.1%
Travelers Cos., Inc.	Insurance	4.9%
Assurant, Inc.	Insurance	3.8%
U.S. Bancorp	Banking Services	3.8%

## Top Five Short Holdings

Security	Industry	% of Portfolio
M&T Bank Corp.	Banking Services	(1.6%)
First Financial Bankshares, Inc.	Banking Services	(1.2%)
Home BancShares, Inc.	Banking Services	(1.1%)
Westamerica Bancorp	Banking Services	(0.5%)
KBW, Inc.	Capital Markets	(0.4%)

## Industry Allocation *(Overweight in bold)*

	Insurance	Banking Services	Financial Services	REITs & Real Estate Management	Consumer Financial Services	Asset Managers	Capital Markets	Other	Cash & Equiv.
Long Portfolio	<b>32.8%</b>	<b>31.2%</b>	18.6%	4.4%	4.3%	<b>0.7%</b>	—	<b>0.4%</b>	7.6%
S&P 1500 SuperComposite Financials Index	23.7%	19.5%	25.2%	4.7%	13.0%	—	13.9%	—	—
Short Portfolio	—	(4.3%)	—	—	—	—	(0.4%)	—	—

## Fund Identification & Expenses

	Ticker Symbol	CUSIP	Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Net Operating Expenses	Minimum Initial Investment: Classes A & C: \$2,500 Class I: \$50,000
<b>A Shares</b>	BANCX	25264S106	5.00%	None	1.00%	0.25%	0.51%	1.76% <sup>4</sup>	Distributions: Annual Lipper Classification: Financial Services Morningstar Classification: Specialty - Financial
<b>C Shares</b>	BSGCX	25264S205	None	1.00%	1.00%	1.00%	0.51%	2.51% <sup>4</sup>	
<b>I Shares</b>	DHFSX	25264S825	None	None	1.00%	None	0.40%	1.40% <sup>4</sup>	

<sup>4</sup>Includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Total Expense Ratio for the Financial Long-Short Fund would have been 1.57% for Class A, 2.32% for Class C, and 1.21% for Class I.

<sup>3</sup>Contribution to Return (CR) is an approximate measure of the contribution by an individual position to the overall portfolio return of the stated period. A daily contribution for each position is calculated by multiplying the position's previous day ending position weight by its daily total return. The daily total return is determined by summing the end of day stock price and any dividends and dividing the result by the beginning stock price. These daily contributions are then geometrically linked to determine the CR for the entire stated period. The holdings identified do not represent all of the securities purchased, sold, or held in the Fund, and past performance does not guarantee future results.

**Performance is not guaranteed.** Performance returns assume reinvestment of all distributions. The total return figures for the Fund reflect the maximum sales charge applicable to each class. Class I and Class C shares include performance based on Class A shares, which was achieved prior to the creation of Class I and Class C shares. Class C returns have been restated for sales charges and for fees applicable to Class C shares, which includes a 1.00% 12b-1 fee. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. In such instances, and without such waiver of fees, the total returns would have been lower. Fund holding and sector weightings are subject to change without notice. The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge (CDSC) of 1.00% for redemptions within the first year of purchase; I shares have no sales charge.

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**\*Risk Statistic Definitions: Standard Deviation** is a statistical measure of the historical volatility of the portfolio. **Beta** is a measure of the volatility of a portfolio relative to the overall market. **Sharpe Ratio** is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. **Alpha** is a measure of the incremental return generated from active portfolio management. **R-squared** represents the percentage of the portfolio's movements that can be explained by the general movements of the market. **Upside/Downside Capture Ratio** measures a manager's ability to generate excess return above the benchmark return in up markets and retain more of the excess return in down markets. The upside/downside capture ratio is the Fund's up/down market return divided by the index's up/down market return. The up/down market return equals the linked returns for all quarters in which the index return was greater/less than zero.

## Portfolio Statistics *(Portfolio composition is subject to change)*

Total Net Assets	\$13M
Median Market Capitalization—Long/(Short)	\$2.7B/(\$1.0B)
Portfolio Turnover Rate (12 months trailing)	71%*
Number of Long/(Short) Equity Securities in Portfolio	50/(5)
Long/(Short) Securities (% of Net Assets)	92.4%/(4.7%)
Gross Exposure (Long + Short)	97.1%
Net Exposure (Long - Short)	87.7%
% of Net Assets in Cash & Equivalents	7.6%

\*This calculation is the lesser of long buys plus short sales or long sales plus short covers divided by the monthly average value of portfolio securities, excluding cash.

## 5-Year Risk Statistics\* *(Class A Load Waived)*

Annualized Standard Deviation (%)	26.53
Beta (%)	0.90 <sup>†</sup>
Sharpe Ratio	- 0.25
Alpha (%)	2.38 <sup>†</sup>
R-squared (%)	91.55 <sup>†</sup>
Upside / Downside Capture Ratio (%)	89 / 83 <sup>†</sup>

<sup>†</sup>Relative to the S&P 1500 SuperComposite Financials Index.

# Strategic Income Fund

## Investment Objective

- ◆ Providing current income and an attractive total return.
- ◆ Suitable for investors with a 3-5 year investment horizon.

## Portfolio Management



Bill Zox, CFA  
Manager



Chris Bingaman, CFA  
Assistant Manager



Bill Dierker, CFA  
Assistant Manager

## Investment Strategy

**BUY STRATEGY** The Fund selects income-producing securities after performing a risk/reward analysis including an evaluation of interest rate, credit, and other risks. Securities are purchased when the compensation received for bearing risk is attractive compared to the risks borne. The Fund allocates relatively more of its investments to those sectors that are expected to offer the best prospects for current income and capital appreciation.

**SELL STRATEGY** Generally securities are held

until they mature or are called. Securities may also be sold because they are no longer attractive on either an absolute basis or relative to other opportunities available to the Fund.

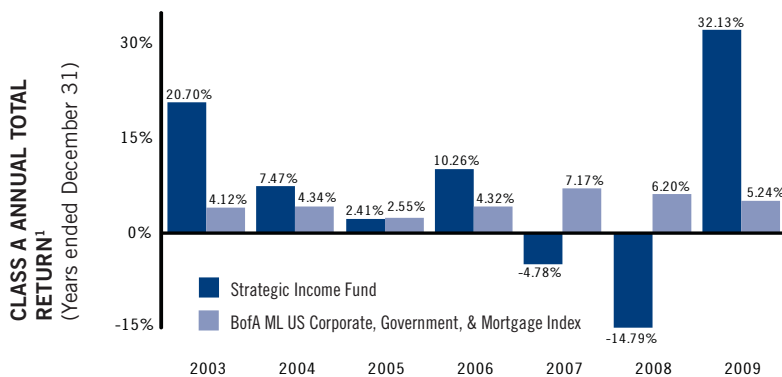
**INVESTMENT UNIVERSE** The Fund invests at least 80% of its total net assets in income-producing securities, including Treasury bills, Treasury/Agency securities, mortgage-backed securities, investment grade and non-investment grade corporate bonds, trust preferreds, closed-end mutual funds, real estate investment trusts and master limited partnerships.

*The value of fixed-income securities varies inversely with interest rates; that is, as interest rates rise, the market value of fixed-income securities will decline. Lower quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.*

## Performance Update

Period & Average Annual Total Returns as of June 30, 2010	Second Quarter	Year to Date	One Year	Three Years	Five Years	Since Inception (9/30/02)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
Class A Shares	1.24%	6.95%	23.33%	3.67%	4.72%	7.53%	1.05%
Class C Shares	1.06%	6.46%	22.31%	2.90%	3.93%	6.80%	1.80%
Class I Shares	1.35%	7.16%	23.84%	4.08%	5.14%	7.82%	0.69%
<b>BENCHMARK</b>							
BofA ML U.S. Corporate, Government & Mortgage Index	3.52%	5.30%	9.08%	7.71%	5.62%	5.27%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
Class A Shares	-2.27%	3.18%	19.01%	2.44%	3.98%	7.04%	1.05%
Class C Shares	0.06%	5.46%	21.31%	2.90%	3.93%	6.80%	1.80%

*The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the last month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com).*



The Bank of America Merrill Lynch US Corporate, Government & Mortgage Index includes a mixture of government bonds, corporate bonds and mortgage pass through securities of investment grade quality, having a maturity greater than or equal to one year. The Bank of America Merrill Lynch US Corporate, Government & Mortgage Index does not take into account the deduction of expenses associated with a mutual fund, such as investment management and accounting fees. One cannot invest directly in an index. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower.

<sup>1</sup> Figures do not reflect sales charges. If they did, the returns would be lower.

## Security Type Allocation

	Corporate Bonds	Preferreds	Asset-Backed Securities	Common Stocks	Limited Partnerships	Municipal Bonds	Government Bonds	Mutual Funds	Cash
Strategic Income Fund	86.0%	1.0%	0.5%	—	—	—	—	—	12.5%



## Top Ten Holdings

Security	% of Portfolio
Freeport-McMoRan Copper & Gold 8.25% 4/1/15	3.9%
KLA Instruments Corp. 6.9% 5/1/18	3.6%
BE Aerospace, Inc. 8.5% 7/1/18	3.5%
Del Monte Corp. 6.75% 2/15/15	3.3%
Cimarex Energy Co. 7.125% 5/1/17	3.3%
Zions Bancorp 7.75% 9/23/14	3.2%
Wilmington Trust Corp. 4.875% 4/15/13	3.2%
Goodyear Tire & Rubber 10.5% 5/15/16	2.8%
Horace Mann Educators 6.85% 4/15/16	2.6%
Fortune Brands, Inc. 4.875% 12/1/13	2.6%

## Bond Quality Rating<sup>2</sup>

Quality Rating	% of Portfolio
AAA	0.0%
AA	0.0%
A	2.0%
BBB	38.6%
BB	33.0%
B	9.3%
CCC	4.1%
CC	0.0%
C	0.0%
NR	0.6%

## Quarterly Dividend Distribution per Share (paid monthly)

	Class A	Class C	Class I
Q3 2009	0.174	0.156	0.183
Q4 2009	0.155	0.136	0.164
Q1 2010	0.149	0.130	0.158
Q2 2010	0.151	0.132	0.162
Last Four Quarters	0.629	0.554	0.667

## Portfolio Statistics (Portfolio composition is subject to change)

Total Net Assets	\$140M
Portfolio Turnover Rate (12 months trailing)	80%
Number of Holdings in Portfolio	54
% of Net Assets in Cash & Cash Equivalents	12.5%
Effective Duration <sup>3</sup>	2.92
Current 30-day Yield	
A Shares	4.48%
C Shares	3.88%
I Shares	5.00%
30-day Distribution Yield (at NAV)	
A Shares	6.26%
C Shares	5.46%
I Shares	6.72%

## 5-Year Risk Statistics\* (Class A Load Waived)

Annualized Standard Deviation (%)	9.09
Beta (%)	0.79
Upside / Downside Capture Ratio (%)	88 / 94

## Fund Identification & Expenses

	Ticker Symbol	CUSIP	Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Total Expense Ratio	Minimum Initial Investment: Classes A & C: \$2,500 Class I: \$50,000
<b>A Shares</b>	DSIAX	25264S882	3.50%	None	0.50%	0.25%	0.30%	1.05%	Distributions: Monthly
<b>C Shares</b>	DSICX	25264S874	None	1.00%	0.50%	1.00%	0.30%	1.80%	Lipper Classification: Flexible Income
<b>I Shares</b>	DHSTX	25264S866	None	None	0.50%	None	0.19%	0.69%	Morningstar Classification: Multi-sector Bond

<sup>2</sup>The above security quality ratings are derived from the underlying securities of the portfolio, and are rated by Standard & Poor's. The ratings are historical and are based upon the credit quality, market exposure, and management of the underlying securities. The Standard & Poor's ratings represent an opinion only, not a recommendation to buy or sell. Diamond Hill Funds does not calculate a rating for securities that are not rated by Standard & Poor's. Unrated securities will show in the "NR" category.

<sup>3</sup>Effective duration is a measure of the interest rate risk of the Fund. Effective Duration is an estimate of the approximate percentage change in the Fund's net asset value that will result from a one percentage point change in its yield.

**Performance is not guaranteed.** Performance returns assume reinvestment of all distributions. The total return figures for the Fund reflect the maximum sales charge applicable to each class. Class I and Class C shares include performance based on Class A shares, which was achieved prior to the creation of Class I and Class C shares. Class C returns have been restated for sales charges and for fees applicable to Class C shares, which includes a 1.00% 12b-1 fee. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. In such instances, and without such waiver of fees, the total returns would have been lower. Fund holding and sector weightings are subject to change without notice. The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge (CDSC) of 1.00% for redemptions within the first year of purchase; I shares have no sales charge.

**Investors should consider the investment objectives, risks, and charges and expenses of the Diamond Hill Funds carefully before investing. This and other information about the Funds is in the prospectus, which can be obtained at [www.diamond-hill.com](http://www.diamond-hill.com). Read the prospectus carefully before you invest. Diamond Hill Capital Management, Inc., a registered investment adviser, serves as Investment Adviser to the Diamond Hill Funds and is paid a fee for its services. The Diamond Hill Funds are distributed by BHIL Distributors, Inc. (Member FINRA), an affiliated company. Investors may obtain a copy of the current prospectus at 888-226-5595 or [www.diamond-hill.com](http://www.diamond-hill.com). Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.**

**\*Risk Statistic Definitions: Standard Deviation** is a statistical measure of the historical volatility of the portfolio. **Beta** is a measure of the volatility of a portfolio relative to the overall market. **Upside/Downside Capture Ratio** measures a manager's ability to generate excess return above the benchmark return in up markets and retain more of the excess return in down markets. The upside/downside capture ratio is the Fund's up/down market return divided by the index's up/down market return. The up/down market return equals the linked returns for all quarters in which the index return was greater /less than zero.

# Performance Update

CLASSIFICATIONS

Overall Morningstar Rating™ <i>Class A with Load/ Class A Load-Waived† # funds in category</i>	Period & Average Annual Total Returns as of June 30, 2010							FEES & EXPENSES							Morningstar Upper
	Ticker Symbol	CUSIP Number	Second Quarter	Year to Date	One Year	Three Years	Five Years	Ten Years or Life of Fund†	Annualized Standard Deviation‡	Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	

SMALL CAP¹ (Inception Date 12/29/00)																	
Class A	DHSCX	25264S304	★★★★ / ★★★★★	-6.63%	0.42%	23.70%	-4.54%	1.72%	10.08%	19.20%	5.00%	None	0.80%	0.25%	0.33%	1.38%	Small-Cap Value
Class C	DHSMX	25264K103	321 funds	-6.81%	0.05%	22.82%	-5.25%	0.97%	9.25%	19.18%	None	1.00%	0.80%	1.00%	0.33%	2.13%	
Class I	DHSIX	25264S858	Weighted average of 3- and 5-year risk-adjusted returns.	-6.55%	0.61%	24.21%	-4.17%	2.14%	10.32%	19.22%	None	None	0.80%	None	0.22%	1.02%	Small-Cap Core
Benchmark	Russell 2000 Index			-9.92%	-1.95%	21.48%	-8.60%	0.37%	3.82%	21.97%							

SMALL-MID CAP¹ (Inception Date 12/30/05)																	
Class A	DHMAX	25264S817	★★★★ / ★★★★★	-6.88%	-0.68%	26.56%	-3.08%	—	1.41%	22.31%	5.00%	None	0.75%	0.25%	0.33%	1.33%	Mid-Cap Value
Class C	DHMCX	25264S791	345 funds	-6.95%	-1.00%	25.63%	-3.78%	—	0.70%	22.31%	None	1.00%	0.75%	1.00%	0.33%	2.08%	
Class I	DHMIX	25264S783	Based on 3 year risk-adjusted returns.	-6.78%	-0.49%	27.00%	-2.70%	—	1.80%	22.32%	None	None	0.75%	None	0.22%	0.97%	Mid-Cap Core
Benchmark	Russell 2500 Index			-9.98%	-1.69%	24.03%	-7.98%	—	-0.37%	21.94%							

LARGE CAP (Inception Date 6/29/01)																	
Class A	DHLAX	25264S502	★★★★ / ★★★★★	-12.59%	-8.74%	14.46%	-7.85%	1.12%	3.88%	16.72%	5.00%	None	0.60%	0.25%	0.31%	1.16%	Large-Cap Value
Class C	DHLCX	25264S601	1,135 funds	-12.75%	-9.10%	13.66%	-8.56%	0.36%	3.06%	16.72%	None	1.00%	0.60%	1.00%	0.31%	1.91%	
Class I	DHLRX	25264S841	Weighted average of 3- and 5-year risk-adjusted returns.	-12.48%	-8.57%	14.91%	-7.50%	1.51%	4.12%	16.73%	None	None	0.60%	None	0.20%	0.80%	Large-Cap Core
Benchmark	Russell 1000 Index			-11.44%	-6.40%	15.24%	-9.54%	-0.56%	0.43%	17.18%							

SELECT (Inception Date 12/30/05)																	
Class A	DHTAX	25264S775	★★★★ / ★★★★★	-11.10%	-7.65%	16.67%	-6.56%	—	-0.29%	17.67%	5.00%	None	0.70%	0.25%	0.32%	1.27%	Large-Cap Value
Class C	DHTCX	25264S767	1,135 funds	-11.33%	-8.05%	15.61%	-7.28%	—	-1.00%	17.65%	None	1.00%	0.70%	1.00%	0.32%	2.02%	
Class I	DHLTX	25264S759	Based on 3 year risk-adjusted returns.	-10.99%	-7.54%	16.97%	-6.19%	—	0.09%	17.64%	None	None	0.70%	None	0.21%	0.91%	Multi-Cap Core
Benchmark	Russell 3000 Index			-11.32%	-6.05%	15.72%	-9.47%	—	-1.84%	18.19%							

LONG-SHORT² (Inception Date 6/30/00)																	
Class A	DIAMX	25264S403	★★★ / ★★★★★	-8.56%	-9.56%	3.65%	-5.58%	2.13%	5.23%	12.12%	5.00%	None	0.90%	0.25%	0.69%	1.84%	Long-Short
Class C	DHFCX	25264E107	123 funds	-8.74%	-9.91%	2.87%	-6.31%	1.36%	4.42%	12.12%	None	1.00%	0.90%	1.00%	0.69%	2.59%	
Class I	DHLSX	25264S833	Weighted average of 3-, 5-, and 10-year risk-adjusted returns.	-8.43%	-9.38%	4.13%	-5.21%	2.54%	5.46%	12.13%	None	None	0.90%	None	0.58%	1.48%	Long-Short
Benchmarks	Russell 1000 Index			-11.44%	-6.40%	15.24%	-9.54%	-0.56%	-1.22%	17.18%							
	50% Russell 1000 Index / 50% BofA ML US T-Bill 0-3 Mo. Index			-5.75%	-3.03%	7.80%	-3.66%	1.41%	1.01%	8.61%							

FINANCIAL LONG-SHORT² (Inception Date 8/1/97)																	
Class A	BANCX	25264S106	★★★★ / ★★★★★	-10.52%	1.15%	25.57%	-17.07%	-7.21%	7.31%	26.53%	5.00%	None	1.00%	0.25%	0.51%	1.76%	Specialty-Financial
Class C	BSGCX	25264S205	107 funds	-10.65%	0.80%	24.65%	-17.74%	-7.94%	6.57%	26.55%	None	1.00%	1.00%	0.51%	2.51%		
Class I	DHFSX	25264S825	Weighted average of 3-, 5-, and 10-year risk-adjusted returns.	-10.40%	1.35%	26.11%	-16.72%	-6.92%	7.48%	26.54%	None	None	1.00%	None	0.40%	1.40%	Financial Services
Benchmark	S&P 1500 SuperComposite Financials Index			-12.65%	-3.03%	18.57%	-23.81%	-10.74%	-2.13%	28.27%							

STRATEGIC INCOME³ (Inception Date 9/30/02)																	
Class A	DSIAX	25264S882	★★ / ★★★★★	1.24%	6.95%	23.33%	3.67%	4.72%	7.53%	9.09%	3.50%	None	0.50%	0.25%	0.30%	1.05%	Multi-sector Bond
Class C	DSICX	25264S874	193 funds	1.06%	6.46%	22.31%	2.90%	3.93%	6.80%	9.08%	None	1.00%	0.50%	1.00%	0.30%	1.80%	
Class I	DHSTX	25264S866	Weighted average of 3- and 5-year risk-adjusted returns.	1.35%	7.16%	23.84%	4.08%	5.14%	7.82%	9.08%	None	None	0.50%	None	0.19%	0.69%	Flexible Income
Benchmark	BofA ML US Corporate, Government & Mortgage Index			3.52%	5.30%	9.08%	7.71%	5.62%	5.27%	3.87%							

¹ For Funds with a performance record ten (10) years or greater, the performance number represents "Ten Years"; otherwise, for Funds with a performance record less than ten (10) years, the performance number represents "Life of Fund."



### Investment Adviser

Diamond Hill Capital Management, Inc.

### Distributor

BHIL Distributors, Inc. (Member FINRA),  
an affiliate of the Diamond Hill Funds

### For additional information, call:

Diamond Hill Funds  
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The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Investors should consider the investment objectives, risks, and charges and expenses of the Diamond Hill Funds carefully before investing. This and other information about the Funds

is in the prospectus, which can be obtained at [www.diamond-hill.com](http://www.diamond-hill.com). Read the prospectus carefully before you invest. The Funds' current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the last month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com). Refer to each Fund on pages 8, 10, 12, 14, 16, 18 & 20 for standardized performance.

**Performance is not guaranteed.** Performance returns assume reinvestment of all distributions. Average annual total returns illustrate the annual compounded returns that would have produced the cumulative total return if the Fund's performance had remained constant throughout the period indicated. Returns for the periods less than one year are not annualized. The total return figures for the Funds do not reflect the applicable sales charge for each class. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. In such instances, and without such waiver of fees, the total returns would have been lower. The investment return and net asset value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than the original purchase price. Class I and Class C shares include performance based on Class A shares, which was achieved prior to the creation of Class I and Class C shares. Class C returns have been restated for sales charges and for fees applicable to Class C shares, which includes a 1.00% 12b-1 fee. No sales charge is assessed on Class I shares. Minimum initial investment for Class I shares is \$50,000.

Morningstar calculates a Morningstar Rating™ for each fund with at least a 3-year history. The rating is based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars; the next 22.5% receive 4 stars; the next 35% receive 3 stars; the next 22.5% receive 2 stars; the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Ratings. The Morningstar Rating is for the A share class only; other classes may have different performance characteristics. These ratings may change monthly. © Morningstar 2010, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

**Small Cap Fund** The Overall Morningstar Rating™ is based on 321 small value funds as of 6/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 4 / 4 stars among 321 and 4 / 4 stars among 251 domestic small value funds for the 3- and 5-year periods ended 6/30/10, respectively.

**Small-Mid Cap Fund** The Overall Morningstar Rating™ is based on 345 mid value funds as of 6/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 4 / 5 stars among 345 domestic mid-cap value funds for the 3 year period ended 6/30/10.

**Large Cap Fund** The Overall Morningstar Rating™ is based on 1,135 large value funds as of 6/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 4 / 4 stars among 1,135 and 4 / 4 stars among 952 domestic large value funds for the 3- and 5-year periods ended 6/30/10, respectively.

**Select Fund** The Overall Morningstar Rating™ is based on 1,135 large value funds as of 6/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 4 / 5 stars among 1,135 for the 3 year period ended 6/30/10.

**Long-Short Fund** The Overall Morningstar Rating™ is based on 123 long-short funds as of 6/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 2 / 2 stars among 123, 3 / 3 stars among 67, and 3 / 3 stars among 23 long-short funds for the 3-, 5-, and 10-year periods ended 6/30/10, respectively.

**Financial Long-Short Fund** The Overall Morningstar Rating™ is based on 107 specialty-financial funds as of 6/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 3 / 3 stars among 107, 3 / 3 stars among 101, and 4 / 4 stars among 68 specialty-financial funds for the 3-, 5-, and 10-year periods ended 6/30/10, respectively.

**Strategic Income Fund** The Overall Morningstar Rating™ is based on 193 multi-sector bond funds as of 6/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 2 / 2 stars among 193 and 2 / 3 stars among 152 multi-sector bond funds for the 3- and 5-year periods ended 6/30/10, respectively.

significant additional risk. Theoretically, stocks sold short have the risk of unlimited losses. The Total Expense Ratio includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Total Expense Ratio for the Long-Short Fund would have been 1.47% for Class A, 2.22% for Class C, and 1.11% for Class I and for the Financial Long-Short Fund would have been 1.57% for Class A, 2.32% for Class C, and 1.21% for Class I.

<sup>3</sup> The value of fixed-income securities varies inversely with interest rates; that is, as interest rates rise, the market value of fixed-income securities will decline.

<sup>4</sup> Ratings for Class A Load-Waived shares should only be considered by investors who are not subject to a front-end sales charge.

<sup>5</sup> Standard deviation measures the variability of Fund and benchmark returns relative to their respective average monthly returns for the current trailing 5-year period, except Small-Mid Cap Fund and Select Fund where standard deviation is calculated since the inception of each Fund. Returns used for the calculation of standard deviation do not reflect sales charges.

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<sup>1</sup> There are special risks associated with small capitalization issues such as market illiquidity and greater market volatility than large capitalization issues.

<sup>2</sup> The Long-Short Fund and the Financial Long-Short Fund use short selling which incurs



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